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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003931

SIPDIS

DEPT FOR EAP/TC  
COMMERCE FOR ITA/MAC/ASIA/MBMORGAN CABLE BOX 4431

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TAGS: [ECON](#) [EINV](#) [ETRD](#) [EWWT](#) [PREL](#) [CH](#) [CT](#)  
SUBJECT: TAIWAN'S FREE TRADE ZONES - WAITING FOR TENANTS  
AND CROSS-STRAIT LINKS

REF: A. 04 TAIPEI 2997  
[B](#). 04 TAIPEI 3095

Classified By: AIT Acting Director David J. Keegan, Reason 1.4 d

Summary  
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[1](#)1. (C) Since establishing its first free trade zone (FTZ) in Keelung Harbor in October 2004, Taiwan has added four more FTZs in the ports of Kaohsiung, Taichung and Taipei, as well as Taipei's Chiang Kai-Shek International Airport. Many businesses have expressed interest in the zones, but relatively few have committed to actually becoming tenants. Manufacturing firms, in particular, do not find the zones attractive. The Council for Economic Planning and Development/Center for Economic Deregulation and Innovation (CEPD/CEDI) emphasizes the lack of direct cross-strait transportation links. Liberalizing cross-strait economic restrictions is essential for Taiwan to maximize its attractiveness as a place to invest. End summary.

Rapid Expansion  
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[1](#)2. (U) In October 2004, Taiwan inaugurated its first FTZ in Keelung Harbor. The program has been quickly expanded to four other locations. The FTZ in the Port of Kaohsiung started operations in January 2005. On January 13, 2005, the Executive Yuan (EY) approved the zone in Taichung Harbor, which is slated to begin operations by the end of the year. On April 28, 2005, the EY approved the Port of Taipei FTZ and the Taoyuan Air Cargo Park FTZ within the confines of Taipei's Chiang Kai-shek International Airport. Taoyuan Air Cargo Park is a build-operate-transfer (BOT) project that has been awarded to Far Glory Group (reported ref B). Several cities and counties have also indicated that they want to establish FTZs, including Kaohsiung City, Tainan County, and Tainan City.

[1](#)3. (U) The zones are considered part of the territory of Taiwan, but outside of its customs territory. Therefore, goods can be imported into the zones without duty or inspection and then exported again with or without additional value added. The zones also offer other benefits to tenants. These include relaxed labor restrictions so that firms can hire foreign workers amounting to up to 40 percent of their total workforce. In addition, Taiwan has a special visa category for visitors to the FTZs to facilitate business travel.

Sluggish Response  
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[1](#)4. (SBU) Although many businesses have expressed interest in the zones, few have committed to actually establishing facilities in the zones. The Port of Kaohsiung FTZ has been the most successful in attracting investment. To date, CEPD/CEDI reports that three companies are operating in the Kaohsiung FTZ and another four have submitted applications to establish facilities in the zone. Eleven companies have paid deposits to reserve sites at Taoyuan Air Cargo Park, but none have submitted applications. One company, Tonglit Logistics Co. has been approved for operation in the Port of Taipei FTZ. No firms have made a binding commitment to locate in the Keelung and Taichung zones.

[1](#)5. (SBU) That response puts CEPD/CEDI behind its modest goals for renting space in the zones. The targets are still realistic for three of the zones. For Kaohsiung, it aims to have seven firms in the zone by the end of the year and for the Port of Taipei only one. The target for Taoyuan Air Cargo Park is five tenants. CEPD/CEDI had aimed to place four firms in the Keelung FTZ and 3 in the Taichung's FTZ by the end of the year.

[1](#)6. (C) CEPD/CEDI Executive Director Heng Tso complained to AIT/T econoff that he is also disappointed by the kinds of firms that have applied to establish facilities in the zones. According to Tso, nearly all are logistics or shipping firms. Only one manufacturing firm has applied to

build a facility that would perform value-added functions. Tonglit Logistics, which plans to set up a factory in the Taipei zone, builds auto parts for Taiwan's China Motor Corporation. Tso said that Tonglit will import parts from the PRC, assemble them into larger components in the FTZ and then sell them to China Motors assembly line in Taiwan. He noted that this project was very important because China Motor Corp. has been considering moving its assembly lines to the PRC.

#### Cross-Strait Links Still Key

17. (C) Some businesses have pointed out that the FTZs do not meet the needs of many firms in Taiwan. Yang Ming Maritime Corp. President Huang Huan-hsiu complained publicly that the FTZs are not "free." He complained about the inconvenience of the customs operations, noting that although firms do not have to declare imported goods, they do have to report it to Customs. He also criticized requirements for hiring aboriginal employees, regulations governing employment of foreign employees, and rules of origin regulations. The Taiwan government has continued to implement additional liberalization measures for the FTZs, but has not gone far enough yet for many firms. CEPD/CEDI's Tso also noted that the FTZs have had difficulty attracting tenants because similar benefits are offered in Taiwan's export processing zones and more successful science parks.

18. (C) Nevertheless, in Tso's discussion with econoff he immediately highlighted the lack of cross-Strait links as the major obstacle to attracting more firms to the FTZs. CEPD/CEDI's promotional materials for the zones emphasize Taiwan's geographic location and proximity to "world manufacturing centers" such as the PRC. As Tso observed, these advantages are much reduced without direct transportation links to the PRC, Taiwan's number one trading partner.

19. (C) Tso told econoff that CEPD/CEDI has urged the Mainland Affairs Council to accelerate liberalization of cross-Strait policies. These efforts include seeking authorization for firms in the Taichung Offshore Transshipment Center to move transshipped goods directly between Taichung and the PRC's Xiamen and Fuzhou harbors. These firms are currently allowed to ship such goods directly to other, more distant ports in the PRC. However, direct transshipment to Xiamen and Fuzhou is still prohibited because of security concerns.

#### Comment - Frustrating Staff and the Economy

10. (C) CEPD/CEDI officials are clearly frustrated by the hand they've been dealt for promoting the FTZs. As Tso's subordinate Jennifer Huang, Chief of External Liaison and Policy Promotion, expressed to AIT/T, it has been difficult to make the FTZs work. She claimed that at the time they were first proposed, there were many advantages, but "hopeful conditions are gone." She commented that in the face of these difficulties CEPD/CEDI could only carry on with the program as instructed by senior officials.

11. (C) The frustration at CEPD/CEDI reflects frustration by many in Taiwan with the Chen Administration's cross-Strait economic policies. Taiwan is facing increasing challenges as it endeavors to compete economically, especially in manufacturing. A tight labor market and high prices for land are major disadvantages that Taiwan must overcome to attract investment from abroad and keep Taiwan's investment at home. Continuing and sometimes growing regulations on business operations only exacerbate the problem. The FTZs could be a useful step in the right direction, but Taiwan's cross-Strait restrictions across a range of areas, including but not limited to finance, transportation and immigration, inhibit Taiwan from exploiting its advantages. Liberalizing these restrictions will not be a magic bullet that returns Taiwan to the manufacturing powerhouse it was, but in a world of ever shrinking margins the additional costs these restrictions impose make a difference. End comment.

KEEGAN